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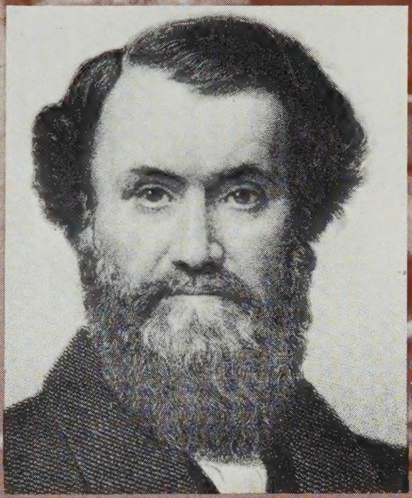
INTERNATIONAL HARVESTER
CANADA

Annual Report 1980

"Our golden age
is not in the past,
it is in the future."



Cyrus Hall McCormick:
Father of Farm Mechanization

For untold centuries, the sickle — and the scythe, later improved by the addition of long wooden fingers to form a cradle — were the only available implements for harvesting grain.

They required hard hand labour, and their productivity was meager. Cutting capacity of the sickle was about half an acre per day. With the cradle, it was about two acres per day.

In 1831, Cyrus Hall McCormick opened the door to advancements in harvest speed, efficiency and ease with the invention of the revolutionary Virginia Reaper.

His machine, with a two-man crew, could cut as much grain in a day as 12 to 16 men with sickles or 4 to 5 men with cradles.

On the occasion of this, the 150th anniversary of International Harvester, we look back proudly to our roots — and to the man who always looked forward.

Cyrus touched the future with his genius. Genius that fueled his dedication to building the best product possible, and his delight in fighting all competition through improved technology.

He was demanding and proud; but he had good reason to be so. Cyrus set the wheels of an industry into motion — one of the largest and strongest in the world.

He founded a company which soon became a global leader; not only in agricultural equipment, but in trucks, construction equipment and turbo machinery.

As we enter our next 150 years of progress, International Harvester reaffirms its commitment to the values of our founder.

Cyrus Hall McCormick said it, and his words ring as true now as they did a century and a half ago, "Our golden age is not in the past, it is in the future."

Preface

1903 marks the year International Harvester began manufacturing operations in Canada.

The company's first plant at Hamilton, Ontario, employed 800 workers and primarily turned out harvest machines.

Over three-quarters of a century later, the wisdom of the company's decision to move into Canada is reflected in its growth: four plants and approximately 6000 employees.

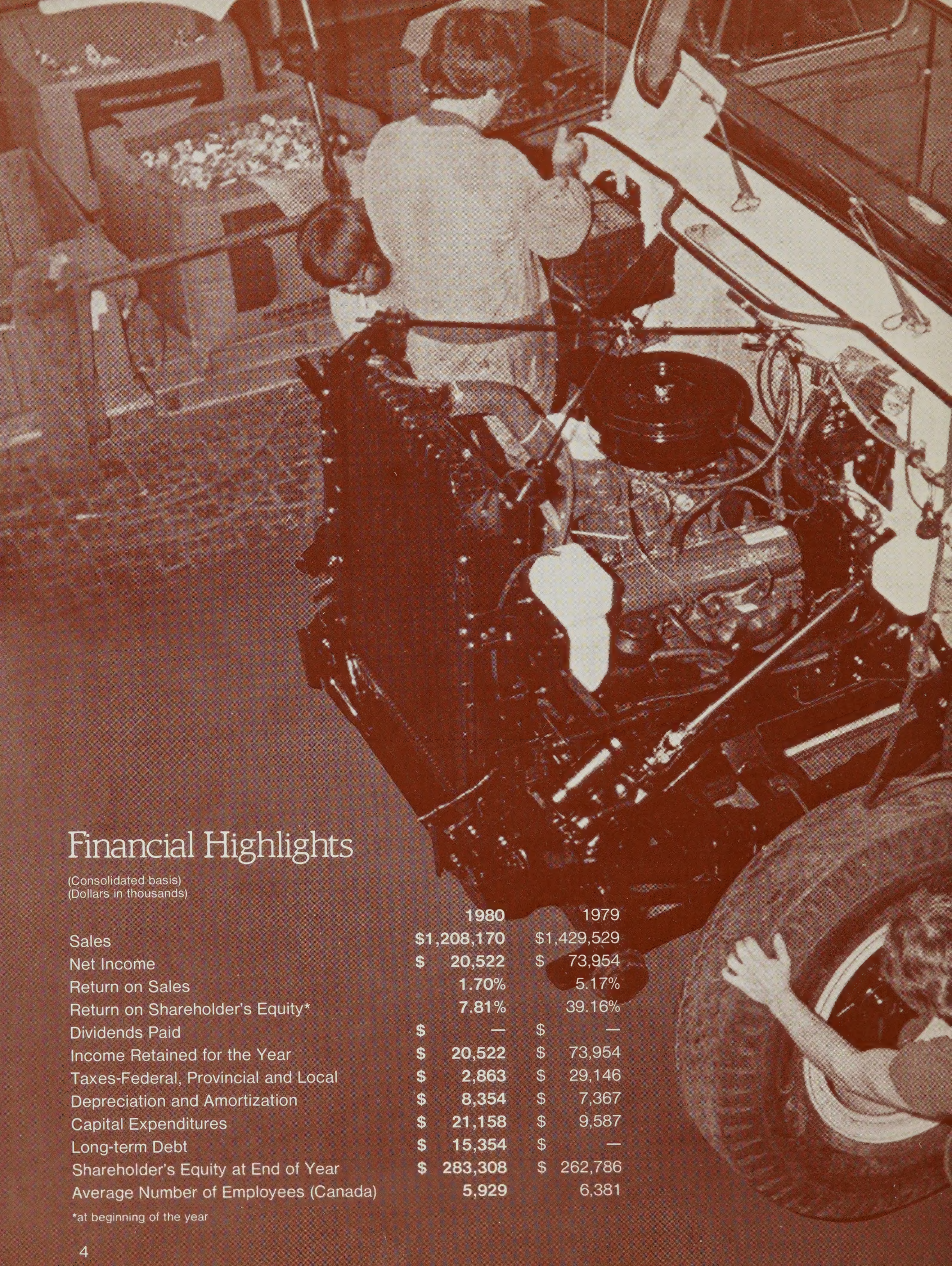
IH is still strongly rooted in agriculture — with tractors and equipment for tillage, crop production, harvesting and materials handling.

But our involvement is equally as great in transportation, construction, and energy generation and transmission.

What's been good for IH has also been good for the Canadian economy. Indeed, two-thirds of the products manufactured here are exported.

More than anything, our participation in this country's growth is of immense pride to International Harvester.

And as we stand on the threshold of history's most exciting decade, we seek to play an even greater role — serving our customers, supporting our employees, and building the future of Canada.



Financial Highlights

(Consolidated basis)
(Dollars in thousands)

	1980	1979
Sales	$1,208,170	$1,429,529
Net Income	$ 20,522	$ 73,954
Return on Sales	1.70%	5.17%
Return on Shareholder's Equity*	7.81%	39.16%
Dividends Paid	$ —	$ —
Income Retained for the Year	$ 20,522	$ 73,954
Taxes-Federal, Provincial and Local	$ 2,863	$ 29,146
Depreciation and Amortization	$ 8,354	$ 7,367
Capital Expenditures	$ 21,158	$ 9,587
Long-term Debt	$ 15,354	$ —
Shareholder's Equity at End of Year	$ 283,308	$ 262,786
Average Number of Employees (Canada)	5,929	6,381

*at beginning of the year

Directors and Officers

at October 31, 1980

Board of Directors:
Edward R. Griffith
Charles J. Munro
William R. Ofield
John E. Reble
Herbert V. Rose

Officers:
Charles J. Munro
President
Herbert V. Rose
Vice President, Finance & Administration
Edward R. Griffith
Treasurer
William R. Ofield
Comptroller
Lloyd A. Pezze
Secretary
John E. Reble
Director, Human Resources and Assistant Treasurer
Norman R. Todd
Assistant Treasurer

Other Executives:
Robert L. Gregson
Director, Communications & Public Affairs
William C. McConnachie
Director, Technical Services
G. B. Johanneson
Manager, Truck Marketing
A. Keith Hibbard
Manager, Service Parts
Nicholas Penner
Manager, Agricultural Marketing
Donald A. Thorsell
Manager, Finance Sales

INTERNATIONAL HARVESTER CANADA

General Offices, 208 Hillyard Street,
Hamilton, Ontario, L8N 3S5

Annual Report 1980

The fiscal year ended October 31, 1980

Ce rapport est publié en français et en anglais. Si vous préférez un exemplaire français, veuillez écrire au Directeur des Relations publiques de la Compagnie.

Transportation

Today, more than ever, trucks are essential in meeting the distribution needs of the manufacturing, construction and agricultural sectors, as well as the commercial community.

International trucks continue to earn the respect of independent operators and fleet owners.

In 1980, International Harvester introduced six truck models and became the first manufacturer of hydraulic disc brakes for medium-duty trucks and buses.

New cab-over trucks which feature advanced fuel efficiency, aerodynamics and driver environment are to be introduced in March, 1981.

For heavy-duty on/off-road applications, our British Columbia subsidiary, Pacific Truck and Trailer, also made significant advances — both in product refinements and sales.

Agriculture

IH has long been a leader in farm equipment innovation . . . with such major contributions as the first all-purpose row crop tractor, the first PTO attachment for tractors, and the revolutionary Cyclo Air planter.

IH introduced the Early Riser, a planter in both Cyclo Air and plate-type models that creates the best possible environment for seed germination and growth.

A big brother was added to our 2+2 family of tractors: the 3788, delivering 170 PTO HP. In the Series 86 line, an 80 PTO HP tractor was added.

The Axial-Flow Combine, with its single rotor for more efficient threshing and separating, continued to set the harvesting pace; and in 1980, this line was also expanded with an economical pull-type model.

Construction, resource development and energy

Canadians who work in construction, lumber, oil and gas, mining and other resource industries look to machines that are as dependable as they are productive.

The dependability and productivity of our loaders, skidders, crawlers and other machines for moving heavy materials are the result of on-going innovation.

In 1980, this was reflected in numerous new products and product refinements.

Highlight of the year was the sale of the first new 580 Pay Loader — to Syncrude in Alberta. It's the world's largest single-engine mechanical-drive wheel loader.

Energy is an important field for International Harvester; and again in 1980, our Solar subsidiary in Alberta made great strides.

Solar manufactures and distributes turbines for generating emergency electrical power, and for pipeline transmission at oil and gas industry compressor stations.

Lawn and garden

A great farm heritage comes home with the new red line of Cadet and Cub Cadet tractors for lawn and garden care.

Like our big farm tractors, every Cadet is the product of one of the most advanced design and engineering programs in the business.

And like our big farm tractors, every Cadet is built solid from the ground up — with extra-duty features such as cast iron I-beam front axles and steel channel automotive-type frames.

No wonder 1980 witnessed increasing acceptance of International lawn and garden tractors, as well as our tough and dependable riding mowers.

In smaller equipment, IH offers walk-behind snow blowers, rotary tillers and power washers.

An important introduction during the year was the multi-mode lawn mower. Available in two models, it can side discharge, bag or mulch the clippings.

President's Message

During 1980 our company faced some very severe challenges. We opened the year with all of our major U.S. plants closed by strike action, and these remained closed for about 5-1/2 months. As Canada shares in those production facilities, our sales were adversely affected.

As we emerged from the strike, we were faced with relatively soft markets in our three key product lines, along with high interest rates, a weak Canadian dollar, drought conditions in western Canada, and a degree of political instability within the country.

However, in spite of these problems, International Harvester Canada did perform reasonably well in 1980 with consolidated sales of $1,208,170,000 and earnings of $20,522,000.

These figures reflect the contributions of all of the Canadian company's subsidiary operations, including Seddon Diesel Vehicles Limited of Great Britain.

Our Canadian domestic sales for 1980 were $1,030,028,000, and earnings for the same period were $16,159,000.

Despite the many negative factors, the year had its positive side. With a sharp drop in the total truck market, we improved our market share position in medium and heavy-duty trucks. We had excellent buyer acceptance of our medium-duty trucks powered by our IH mid-range diesel engines to go with our already strong reputation in the medium-duty market.

Our subsidiary, Pacific Truck and Trailer in Vancouver, had an outstanding sales year with strong demand both in Canada and offshore.

Our agricultural business finished 1980 with a very strong last quarter. A fine product line, improved availability, and a strong dealer organization made these results possible. During the year we introduced a third model in our highly popular 88 Series 2+2 tractor line. This new design and concept is rapidly gaining acceptance all across Canada. We also completed our line of Axial-Flow combines to give model coverage for both eastern and western Canada. Another very significant product release was our Early Riser Planter line, which will be available for the full 1981 sales year.

Our construction equipment business was affected by a general economic slump throughout all of Canada. Housing starts were at a very low level, all major resource development projects were placed on the back burner, and there was a general tightening of government spending. Despite these problems, we were able to maintain our market share as well as introduce a number of new products into our construction equipment line.

Our new Solar Turbine facility was completed in Edmonton; however, lack of activity in the oil and gas area has restricted some opportunities for growth in the turbine market.

As we look ahead to 1981, we have some reason for guarded optimism. We feel the truck market may have bottomed out and will show some growth potential, particularly in the latter half of 1981. We will also have available for part of 1981 a new CO-9670 high-entry tilt cab highway tractor. This vehicle is a result of ten years of planning and development, and will offer our customers new standards in aerodynamics, fuel efficiency, ride, and performance. We are extremely enthusiastic about its potential.

In our agricultural and construction equipment fields, we have one of the finest product lines in the history of our company.

Over the last few years we have been doing some extensive upgrading of our dealer and distributor organization, and we move into 1981 with a highly efficient, dedicated group of retailers who are capable of supplying excellent service to our customers.

In our Solar line, 1981 will see the introduction of a new 10,000 HP Mars turbine, the most efficient turbine of its type in the world.

Never before has our company been better positioned to move into a decade as it is with the 80's. Our product and product distribution are the strongest they have ever been.

Of major importance in achieving our goals will be how well Canada performs. It will take some strong responsible leadership by government, labour and industry to ensure improved economic performance and real growth. Some immediate resolve must be made in both the fields of constitutional reform and energy self-sufficiency if we, as a country, are to gain credibility throughout the world.

Also in 1981 we celebrate our 150th anniversary, commemorating the invention of the reaper by Cyrus McCormick. We look forward to following his leadership with dedication and innovation into the 80's.

I would, on behalf of the Board of Directors, like to thank our employees, customers, and suppliers. Your support has once again been essential to achieving our success.

Charles J. Munro

Consolidated Statement of Income and Income Retained

For the Years ended October 31, 1980 and 1979
(Dollars in thousands)

	1980	1979
Sales		
Canadian operations to —		
Dealers and users in Canada	$ 694,415	$ 833,099
International Harvester Company	314,218	365,792
Other affiliated companies and jobbers	21,395	12,056
	1,030,028	1,210,947
Seddon Diesel Vehicles Limited	178,142	218,582
Total Sales	1,208,170	1,429,529
Costs and Expenses		
Cost of Sales	1,076,549	1,244,504
Marketing and administrative expenses	74,053	64,565
Charges for financing services from non-consolidated finance subsidiary	49,112	37,072
Interest expense (including long-term of — 1980 $471; 1979 $1,339)	12,294	6,980
Other income-net	(3,979)	(1,922)
Provision for income taxes: (note 4)		
Current	(3,497)	18,650
Deferred	(4,940)	(4,918)
Total Costs and Expenses	1,199,592	1,364,931
Income Consolidated Companies	8,578	64,598
Income Non-Consolidated Finance Subsidiary	11,944	9,356
Net Income	20,522	73,954
Income Retained		
— at beginning of the year:		
as previously stated	247,786	176,481
adjustment of prior year's net income (note 9)	—	(2,649)
as restated	247,786	173,832
— at end of the year	$ 268,308	$ 247,786

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of this statement.

Consolidated Statement of Financial Condition

October 31, 1980 and 1979

(Dollars in thousands)

	1980	1979
ASSETS		
Current Assets		
Cash	**$ 100**	$ 10,213
Accounts receivable — less allowances	**40,391**	50,722
Accounts receivable from parent company	**11,187**	31,767
Accounts receivable from affiliated companies	**3,490**	99
Accounts receivable from non-consolidated finance subsidiary	**8,445**	22,917
Inventories (note 1)	**245,066**	247,614
Deferred income taxes	**9,519**	6,174
Other current assets	**4,332**	4,576
Total Current Assets	**322,530**	374,082
Equity in Non-Consolidated Finance Subsidiary	**84,999**	62,270
Notes Receivable from Non-Consolidated Finance Subsidiary	**—**	10,000
Property at cost, less depreciation & amortization (note 2)	**69,183**	57,524
Goodwill at cost, less amortization	**3,350**	3,637
Other Assets	**8,815**	9,116
Total Assets	**$488,877**	$516,629
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Bank indebtedness	**$ 12,467**	$ 21,354
Notes payable	**44,942**	66,800
Current invoices, payrolls and accruals	**116,889**	127,618
Accrued taxes	**7,594**	25,223
Accounts payable to affiliated companies	**4,230**	4,319
Total Current Liabilities	**186,122**	245,314
Long-term Debt (note 3)	**15,354**	—
Deferred Income Taxes	**4,093**	8,529
Shareholder's Equity		
Capital stock — authorized, issued and fully paid — 150,000 common shares of $100 par value	**15,000**	15,000
Income retained	**268,308**	247,786
Total Shareholder's Equity	**283,308**	262,786
Total Liabilities & Shareholder's Equity	**$488,877**	$516,629

Approved by the Board:

C. J. Munro, *Director*

W. R. Ofield, *Director*

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

For the Years ended October 31, 1980 and 1979

(Dollars in thousands)

	1980	1979
Source of Working Capital		
Net income	$ 20,522	$ 73,954
Items not affecting working capital:		
Depreciation and amortization	8,354	7,367
Undistributed earnings of non-consolidated finance subsidiary	(10,729)	(8,636)
Deferred income taxes	(4,436)	5,767
Amortization of goodwill	287	287
Working Capital Provided from Operations	13,998	78,739
Property disposals	1,145	1,619
Decrease in notes receivable from non-consolidated finance subsidiary	10,000	—
Increase in long-term debt	15,354	—
Other — net	301	(3,292)
Total Source	40,798	77,066
Application of Working Capital		
Capital expenditures:		
Canadian facilities	14,343	7,953
Seddon Diesel Vehicles Limited	6,815	1,634
Total Capital Expenditures	21,158	9,587
Purchase of shares in non-consolidated finance subsidiary	12,000	—
Increase in notes receivable from non-consolidated finance subsidiary	—	10,000
Total Application	33,158	19,587
Increase in Working Capital	7,640	57,479
Working Capital — at beginning of the year	128,768	71,289
— at end of the year	$136,408	$128,768
Changes in Working Capital		
Current assets — increase (decrease)		
Cash	$ (10,113)	$ 10,031
Accounts receivable	(41,992)	47,026
Inventories	(2,548)	67,362
Deferred income taxes	3,345	12,705
Other current assets	(244)	1,232
Current liabilities — (increase) decrease		
Bank indebtedness	8,887	1,806
Notes payable	21,858	(44,239)
Current maturities of long-term debt	—	18,000
Current invoices, payrolls and accruals	10,729	(45,341)
Accrued taxes	17,629	(21,690)
Accounts payable to affiliated companies	89	10,587
Increase in Working Capital	$ 7,640	$ 57,479

The accompanying Summary of Accounting Policies and Notes to Consolidated Financial Statements are an integral part of this statement.

Notes to Consolidated Financial Statements

(Dollars in thousands)

	1980	1979
1. Inventories		
Finished goods	$134,131	$113,297
Raw materials and supplies	73,328	96,361
Work-in-process	37,607	37,956
Inventories	$245,066	$247,614
2. Property		
Canadian Facilities		
Buildings, machinery and equipment:		
Manufacturing	$ 79,689	$ 72,894
Distribution	16,804	16,220
Other	11,862	9,112
	108,355	98,226
Less accumulated depreciation and amortization	60,744	56,780
	47,611	41,446
Tooling and pattern equipment, less amortization	4,570	4,448
Land	3,129	3,240
Property Canadian Facilities — net	55,310	49,134
Seddon Diesel Vehicles Limited — net	13,873	8,390
Property	$ 69,183	$ 57,524
3. Long-term Debt		
Note due 1985 with interest at 13-1/4% payable annually	$ 15,098	$ —
Other	256	—
Long-term Debt	$ 15,354	$ —

4. Provision for Income Taxes

The Company is eligible for certain deductions in determining its provision for income taxes pertaining to United Kingdom "stock relief", Canadian inventory allowance and non-taxable dividends.

As a result of 1979 changes in the United Kingdom Tax Laws related to "stock relief", net income increased by $7,902 in 1980 and by $16,450 in 1979. The latter amount includes the reversal to income of $13,440 of deferred income taxes recorded in years prior to 1979 and $3,010 of 1979 tax benefits from "stock relief", all relating to year-to-year increases in inventory.

As of October 31,1980, $20,852 of "stock relief" is subject to payment if United Kingdom inventories decrease during the applicable recapture periods ranging up to six years. Management currently believes that it is probable that such inventories will not decrease during the recapture periods.

At October 31, 1980, the Company had $3,400 of operating loss carry-forward available to reduce future taxable income in a foreign country. This amount, which has not been recognized in these financial statements, is available indefinitely to reduce future income taxes and will be credited to income when realized.

5. Retirement Plans

The Company has retirement plans in effect for eligible salaried and hourly rated employees. Total pension expense for 1980 was $17,433 (1979 — $12,941). Pension costs are computed on the basis of accepted actuarial methods and include amortization of past service costs. Past service pension costs of $111,734 (1979 — $57,830) which have not as yet been charged to operations will be amortized over the period to 1995. Approximately $97,624 (1979 — $55,516) of these past service costs relate to vested benefits.

6. Statutory Information

The remuneration to directors and senior officers as defined in the Business Corporations Act, Ontario, for the year ended October 31, 1980 amounted to $449 (1979 — $316).

7. Related Party Transactions

The Company is a wholly-owned subsidiary of International Harvester Company. The Company purchases and sells manufactured goods and parts from and to International Harvester Company and its subsidiaries. These financial statements include the Company's transactions with the parent company and the parent's subsidiary companies as follows:

	1980		1979	
	Parent	Parent Subsidiaries	Parent	Parent Subsidiaries
Sales	$314,218	$21,395	$365,792	$12,056
Purchases	394,331	35,453	544,361	37,154
Miscellaneous — net	9,396	—	268	—

(includes research fees, management fees and other).

The Company sells certain specified retail accounts and wholesale notes and accounts to its non-consolidated finance subsidiary under an agreement between the companies. The Company pays interest on these notes and accounts at an agreed upon interest rate applied to the average monthly outstanding balances less interest amounts paid by dealers on such notes and accounts.

The Company's transactions with its non-consolidated finance subsidiary are disclosed in that company's financial statements presented on pages 17 and 18.

8. Contingent Liabilities

The Company sold certain notes totalling $15,000 in 1978 of its non-consolidated finance subsidiary to banks with settlement of these notes guaranteed by the Company.

Notes to Consolidated Financial Statements (continued)

(Dollars in thousands)

9. Changes in Accounting Policy
Commencing in 1980, the Company adopted the equity method of accounting for its non-consolidated finance subsidiary. Balances for 1979 have been restated in conformity with this policy.
Commencing in 1979, the Company adopted the policy of accruing for future product warranty costs. The effect of this change, which was applied retroactively, was to reduce 1979 net income by $531. The cumulative effect of this change, which amounted to $2,649, was deducted from retained earnings as of November 1, 1978.

10. Change in Name
Effective November 1979, the Corporate name was changed to International Harvester Canada Limited.

11. Segmented Information

Summary of Operations	Canadian Operations		Seddon Diesel Vehicles Limited		Consolidated	
	1980	1979	1980	1979	1980	1979
Net Income For the Years Ended October 31, 1980 and 1979						
Sales	$1,030,028	$1,210,947	$ 178,142	$ 218,582	$1,208,170	$1,429,529
Costs and Expenses						
Cost of sales	918,813	1,063,717	157,736	180,787	1,076,549	1,244,504
Marketing and administrative expenses	58,306	53,267	15,747	11,298	74,053	64,565
Charges for financing services from non-consolidated finance subsidiary	49,112	37,072	—	—	49,112	37,072
Interest expense	9,657	5,782	2,637	1,198	12,294	6,980
Other (income) deductions	(6,791)	185	2,812	(2,107)	(3,979)	(1,922)
Income taxes	(3,284)	19,586	(5,153)	(5,854)	(8,437)	13,732
	$1,025,813	$1,179,609	$ 173,779	$ 185,322	$1,199,592	$1,364,931
Income of manufacturing and trading operations	4,215	31,338	4,363	33,260	8,578	64,598
Income of non-consolidated finance subsidiary (page 17 and 18)	11,944	9,356	—	—	11,944	9,356
Net Income	$ 16,159	$ 40,694	$ 4,363	$ 33,260	$ 20,522	$ 73,954
Financial Condition at October 31						
Assets						
Current Assets						
Cash	$ 27	$ 214	$ 73	$ 9,999	$ 100	$ 10,213
Receivables	47,651	79,680	15,862	25,825	63,513	105,505
Inventories	166,251	188,995	78,815	58,619	245,066	247,614
Other current assets	13,094	10,382	757	368	13,851	10,750
Total current assets	227,023	279,271	95,507	94,811	322,530	374,082
Equity in non-consolidated finance subsidiary	84,999	62,270	—	—	84,999	62,270
Property	55,310	49,134	13,873	8,390	69,183	57,524
Other assets	26,246	36,658	(14,081)	(13,905)	12,165	22,753
Total assets	$ 393,578	$ 427,333	$ 95,299	$ 89,296	$ 488,877	$ 516,629
Liabilities and Shareholder's Equity						
Current Liabilities						
Bank indebtedness	$ 3,246	$ 9,350	$ 9,221	$ 12,004	$ 12,467	$ 21,354
Notes payable	24,900	66,800	20,042	—	44,942	66,800
Other current liabilities	106,283	119,564	22,430	37,596	128,713	157,160
Total current liabilities	134,429	195,714	51,693	49,600	186,122	245,314
Other liabilities	19,447	8,076	—	453	19,447	8,529
Capital stock	15,000	15,000	—	—	15,000	15,000
Income retained	224,702	208,543	43,606	39,243	268,308	247,786
Total liabilities and shareholder's equity	$ 393,578	$ 427,333	$ 95,299	$ 89,296	$ 488,877	$ 516,629

12. Subsequent Event
In February 1981, the management of Seddon Diesel Vehicles Limited announced the closure of one of its production facilities. The principal costs of this action, including termination pay, moving expenses and losses on the disposal of certain fixed assets, has been estimated at $6,000, none of which is provided for in these consolidated financial statements.

Summary of Accounting Policies

Basis of Consolidation
The accompanying financial statements include the accounts of International Harvester Canada Limited and its wholly-owned subsidiaries, Pacific Truck and Trailer Ltd., Seddon Diesel Vehicles Limited and Harcan Leasing Limited on a consolidated basis. International Harvester Credit Corporation of Canada Limited is included in the Consolidated financial statements at the Company's equity in its net assets. Management believes this to be a more informative presentation. Investments in dealerships are carried at cost.

Financial statements for the non-consolidated finance subsidiary are set out separately on pages 17 and 18.

Foreign Exchange
With the exception of inventories, current assets and current liabilities in foreign currencies are translated into Canadian dollars at the year end exchange rates. Inventories have been translated at applicable historical rates. Other foreign currency assets and liabilities are translated at the exchange rates prevailing at the time of acquisition. Revenues, costs and expenses are translated at the average exchange rates for the year, except that depreciation expense is translated at the exchange rates prevailing at the time the related assets were acquired. Gains or losses resulting from exchange rate fluctuations are credited or charged to income currently.

Inventory Valuation
Inventories are valued generally at the lower of cost or market. Cost is determined substantially on the basis of average cost for the year including the cost of opening inventory. Market is considered as replacement value which does not exceed net realizable value for raw materials and supplies and work-in-process. For finished goods, market is considered as net realizable value less a normal profit margin.

Depreciation and Amortization
Depreciation and amortization for other than capital leases are generally computed on a straight line basis over the useful lives of the various classes of properties.

Leases
The Company capitalizes leases that transfer substantially all of the benefits and risks of ownership to the lessee. These capital leases are, in general, amortized over the terms of the respective leases. Lease amortization is included in depreciation expense.

Deferred Income Taxes
The Company recognizes the tax effect of each item in the statement of income in the current period regardless of when the tax is paid. Taxes on amounts which affect financial and taxable income in different periods are reported as deferred income taxes.

Engineering and Research Expenditures
Expenditures for the development of new and improved products are charged to costs as incurred.

Auditors' Report

Deloitte
Haskins · Sells
Chartered Accountants,
6th Floor, EquiTrust Tower
1 James Street South, Hamilton,
Ontario L8P 4R5
(416) 523-6770 · Cable DEHANDS

To the Shareholder of International Harvester Canada Limited (formerly International Harvester Company of Canada, Limited):

We have examined the consolidated statements of financial condition of International Harvester Canada Limited as at October 31, 1980 and 1979 and the consolidated statements of income and income retained and changes in financial position for the years then ended. We have made a similar examination of the financial statements of International Harvester Credit Corporation of Canada Limited, a non-consolidated finance subsidiary, as at October 31, 1980 and 1979 (pages 17 and 18). Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly (a) the consolidated financial position of International Harvester Canada Limited as at October 31, 1980 and 1979 and the results of its consolidated operations and the changes in its consolidated financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis, after restatement of the method of accounting for the non-consolidated finance subsidiary as described in Note 9 to the consolidated financial statements and (b) the financial position of International Harvester Credit Corporation of Canada Limited as at October 31, 1980 and 1979 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Deloitte Haskins & Sells.

December 9, 1980
(February 20, 1981 as to note 12)

Financial Review

(Dollars in thousands)

Basis of Review

The financial review presentation is based on the financial data shown as segmented information (note 11). This sets out the results of the Canadian manufacturing and trading operations separate from the wholly-owned subsidiary Seddon Diesel Vehicles Limited. Financial statements for the non-consolidated finance subsidiary are set out separately on pages 17 and 18.

Sales

Canadian manufacturing and trading operations sales for 1980 were $1,030,028 compared to $1,210,947 in 1979. Domestic sales to dealers and users in Canada in 1980 were 16.6% lower than the prior year. Canadian produced goods sold to export markets in 1980 of $335,613 showed a decrease of 11.2% from 1979. Sales by Seddon Diesel Vehicles Limited for 1980 were $178,142 compared to $218,582 in 1979, a decrease of 18.5%.

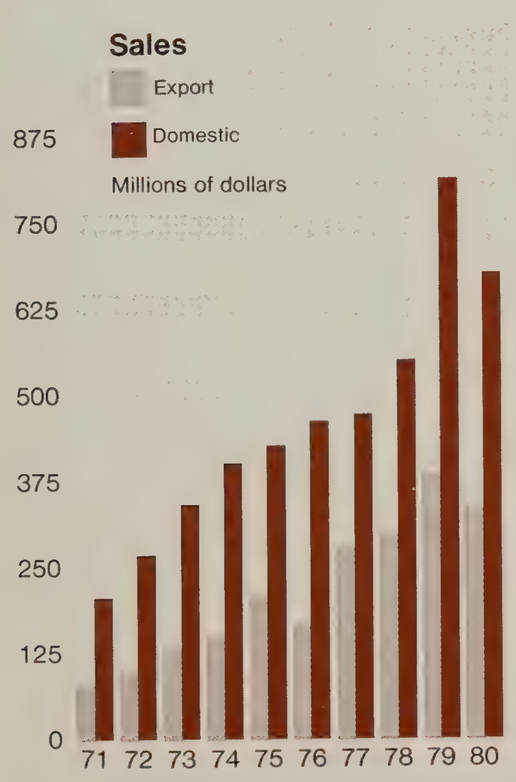
Net Income

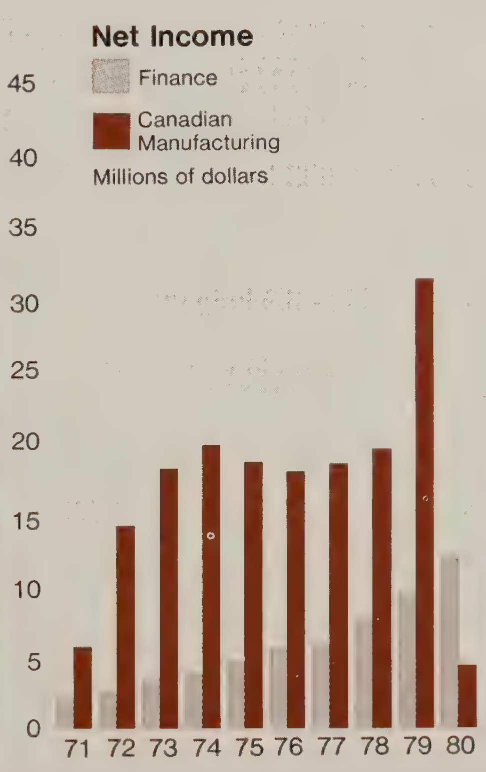
The net income for 1980 was $20,522 compared to $73,954 for 1979, a decrease of 72.2%.

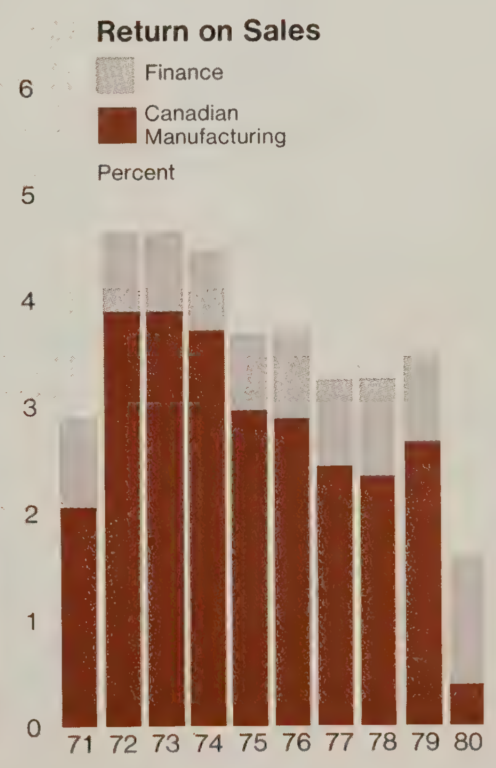
Seddon Diesel Vehicles Limited accounted for a substantial part of the decrease. Seddon's net income including consolidation adjustments was $4,363 for 1980 compared to $33,260 for the prior year, a decrease of 86.9%. Reduced volume and higher operating costs, the favourable tax adjustment in 1979 of $16,450 resulting from a change in the United Kingdom Tax Laws (see note 4) and a reduction in the currency translation gain in 1980 of $4,448, were the major factors causing the drop in net income.

Income from the Canadian manufacturing and trading operations of $4,215 decreased 86.6% from 1979. The return on sales of 0.4% in 1980 was a decrease from 2.6% in the prior year. The decline in the return on sales resulted from the strike at plants of the parent company for the first five and one-half months of the year, combined with high financing and interest costs together with the unfavourable exchange impact resulting from the weakness of the Canadian dollar.

Earnings from our non-consolidated finance subsidiary of $11,944 for 1980 increased 27.7% over 1979 and were an all-time high.







Inventories

Canadian inventories of finished goods, raw materials and supplies and work-in-process were $166,251 in 1980 compared to $188,995 in 1979, a decrease of 12.0%. Inventories are summarized by major classifications as follows:

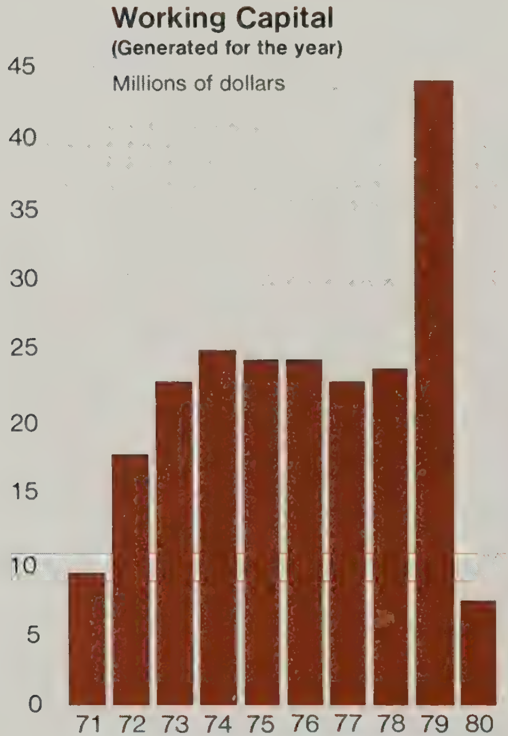
	1980	1979
Finished goods	**$ 91,465**	$ 97,888
Raw materials and supplies	**51,325**	68,707
Work-in-process	**23,461**	22,400
	$166,251	$188,995

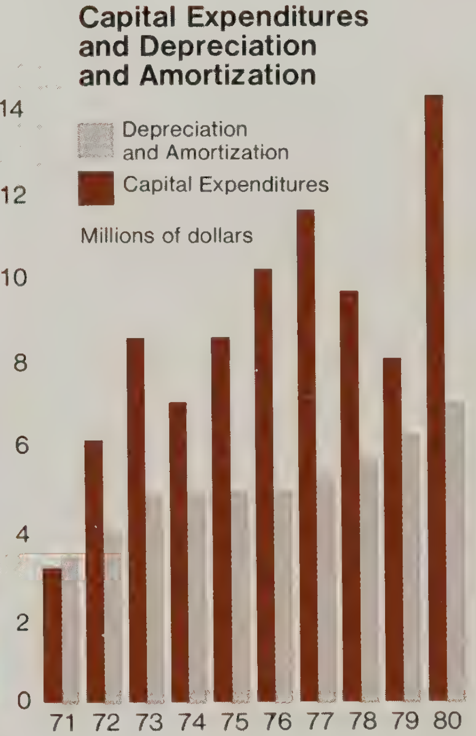
Property

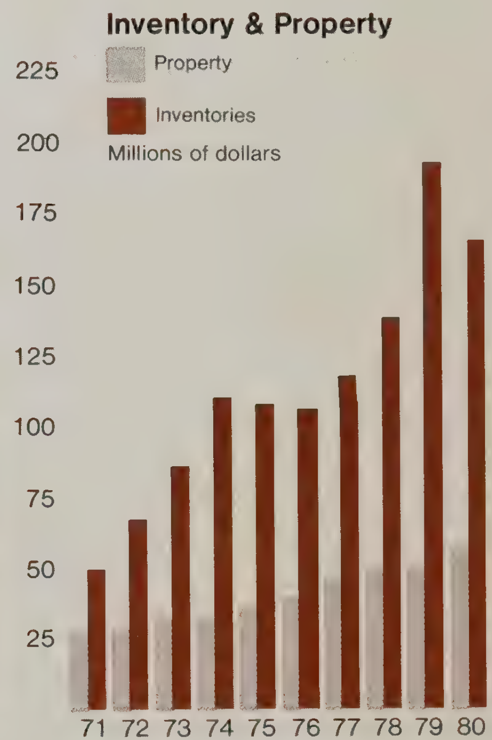
Capital expenditures of the Canadian manufacturing and trading companies totalled $14,343 for 1980 fiscal year as compared to $7,953 for the previous year. Commitments on appropriations in progress at October 31, 1980 approximated $7,363. The Company continues to be committed to a program of modernization of facilities with an overall improvement of productivity.

Employment

The Company's average employment in Canada in 1980 was 5,929 compared to 6,381 in 1979. Compensation paid to employees in 1980 was $126,390 of which approximately $110,441 was paid for time worked and $15,950 was paid for vacations and statutory holidays. In addition, approximately $32,276 was paid for insurance, medical and pension plans and other fringe benefits. Comparable 1979 compensation was $122,018 of which approximately $107,094 was for time worked and $14,924 was for vacations and statutory holidays. In addition, approximately $27,687 was paid for fringe benefits in 1979.







Statement of Income and Income Retained

For the years ended October 31, 1980 and 1979

(Dollars in thousands)	1980	1979
Revenue: (note 1)		
Interest, discounts, finance charges and other revenue on receivables (including income from parent company of $49,112 in 1980 and $37,072 in 1979)	$103,282	$ 73,103
Expenses:		
Interest on long-term debt (including $927 paid to parent company in 1980 and $523 in 1979)	26,862	17,451
Interest on short-term notes	44,032	29,217
Service fee paid to parent company for credit and collection, management and other services	5,277	4,308
Provision for losses on receivables	394	742
Other expenses	3,727	3,040
Taxes on income (note 1)	11,046	8,989
Total Expenses	91,338	63,747
Net Income	11,944	9,356
Dividends Paid	1,215	720
Income Retained		
— for the year	10,729	8,636
— at beginning of the year	44,270	35,634
— at end of the year	$ 54,999	$ 44,270

Statement of Financial Condition

October 31, 1980 and 1979

	1980	1979
Assets:		
Receivables — net (notes 1 and 2)	$728,258	$627,161
Deferred income taxes (note 1)	834	914
Prepaid interest	3,183	2,471
Other assets	2,183	1,846
Total Assets	$734,458	$632,392
Liabilities:		
Short-term notes payable	$334,700	$336,987
Current maturities of long-term debt	32,750	1,100
Accounts payable to parent company	8,445	22,917
Dealers' contingency credits	6,197	4,223
Accrued taxes (note 1)	4,863	2,667
Accrued interest	12,113	7,574
Long-term debt (note 3)	238,953	181,966
Deferred income taxes (note 1)	10,619	10,755
Other liabilities	819	1,933
Total Liabilities	649,459	570,122
Shareholder's Equity:		
Capital stock	30,000	18,000
Income retained	54,999	44,270
Total Shareholder's Equity	84,999	62,270
Total Liabilities and Shareholder's Equity	$734,458	$632,392

Statement of Changes in Financial Position

For the years ended October 31, 1980 and 1979

	1980	1979
Source of Cash:		
Net income	$ 11,944	$ 9,356
Non-cash transactions:		
Provision for losses on receivables	394	742
Deferred income taxes	(56)	1,209
Collections on notes receivable (except finance charges included in net income)	731,280	702,564
Proceeds from issuance of capital stock	12,000	—
Proceeds from issuance of long-term debt	110,000	30,000
Other — net	(1,589)	200
Total Source	$863,973	$744,071
Application of Cash:		
Acquisition of notes receivable (excludes finance charges)	$829,587	$909,713
Redemption of long-term debt	21,350	1,900
Decrease (increase) in short-term debt — net	2,287	(161,947)
Increase in accounts receivable — net	2,656	6,837
Decrease (increase) in accounts payable — net	6,320	(12,986)
Payment of cash dividends	1,215	720
Increase (decrease) in cash	558	(166)
Total Application	$863,973	$744,071

The accompanying Notes to Financial Statements presented on page 18 are an integral part of these statements.

Notes to Financial Statements

(Dollars in thousands)

1. Summary of Accounting Policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and reflect the following policies:

FOREIGN EXCHANGE — Receivables and notes payable within one year in foreign currencies are translated into Canadian dollars at the year end exchange rates. Long-term debt payable in foreign currencies is translated at the exchange rate in effect at the time of incurring the debt.

RETAIL NOTES — Finance charges included in the face amounts of retail notes are taken into income over the lives of the notes on an accrual basis. The finance charge in a monthly payment note is taken into income monthly on the sum of the month's digits method. The finance charge in a seasonal payment note, common in agricultural equipment financing, is taken into income each month as earned for the period between seasonal instalments but declines for each period as the outstanding note balance is reduced. Where finance charges are less than the Company's net return finance rate, the related notes are acquired by the Company at discount rates which enable it to earn its net return finance rate; these discounts are also taken into income monthly on the sum of the month's digits method. Leasing transactions are reported in accordance with the financing method of accounting. Lease income receivable and unearned income are recorded when lease contracts become effective. The unearned income (representing the difference between aggregate lease rentals and the cost of the related equipment less estimated residual value at the end of the lease term) is taken into income on the same basis as other retail notes.

RETAIL ACCOUNTS AND WHOLESALE NOTES AND ACCOUNTS — In accordance with the agreements between the Company and International Harvester Canada Limited relating to financing of retail accounts and wholesale notes and accounts, the Company receives interest income from International Harvester Canada Limited at an agreed upon interest rate applied to the average monthly outstanding balances less interest amounts paid by dealers on such notes and accounts.

DEFERRED DISCOUNT — On the purchase of wholesale notes of dealers and distributors from International Harvester Canada Limited, the Company pays face value less a discount at a percentage which may be agreed upon from time to time. This discount is taken into income upon settlement of the notes by the dealers.

INCOME TAXES — The tax effect of each item in the Statement of Income is recognized in the current year, regardless of when the tax is paid. Timing differences giving rise to deferred income taxes relate primarily to allowance for losses, lease income and unamortized long-term debt expense.

CHARGE OFF POLICY — Receivables are charged off as soon as they are determined to be uncollectible. All wholesale losses are charged to the allowance for losses while retail losses are charged against contingency credit accounts of dealers or International Harvester Canada Limited. If these contingency credit accounts are exhausted, the losses are charged to the allowance for losses.

REPOSSESSIONS — Repossessions are carried at lower of cost or net estimated realizable value.

2. Receivables	**1980**	1979
Receivables are shown net of the following provisions:		
Unearned finance charges on retail notes	**$ 79,158**	$ 57,562
Deferred discounts on wholesale notes	**2,122**	2,044
Allowance for losses	**1,679**	1,890
	$ 82,959	$ 61,496
Receivables, before provisions, maturing beyond one year are as follows:		
13-24 months	**$229,556**	$152,544
over 24 months	**141,388**	114,143
	$370,943	$266,687

3. Long-term Debt

Long-term debt consists of the following:	**October 31 1980**	October 31 1979
Senior Debt		
Debentures:		
5-3/4% Series A, due 1982	**$ 6,000**	$ 6,000
5-3/4% Series B, due 1984	**5,000**	5,000
8-3/4% Serial, Series C, maturing $1,000 annually	**6,000**	7,000
8-1/2% Serial, Series D, maturing $1,000 annually commencing 1984	**10,000**	10,000
10-3/8% Serial, Series E, maturing $1,000 annually commencing 1985	**10,000**	10,000
9-3/4% sinking fund, due 1986	**20,000**	22,000
Notes:		
10-1/4% due 1981	**—**	30,000
13.25% due 1982 (a)	**15,000**	15,000
8-3/4% due 1983	**25,000**	25,000
12.62% due 1983 (a)	**50,000**	—
12.62% due 1983 (a)	**25,000**	—
	172,000	130,000
Senior Subordinated Debt		
Notes:		
6% due 1984	**2,000**	2,000
11% maturing $900 annually commencing 1981	**10,000**	10,000
13% due 1982 (a)	**5,000**	5,000
12% due 1982	**—**	10,000
10-3/8% due 1984	**10,000**	10,000
12-1/4% due 1985	**10,000**	—
	37,000	37,000
Junior Subordinated Debt		
Notes:		
13.75% due 1983 (a)	**7,500**	7,500
13.75% due 1983 (a)	**7,500**	7,500
13-1/4% due 1985	**15,000**	—
	30,000	15,000
Unamortized Premium & Discount (Net)	**(47)**	(34)
Total Long-term Debt	**$238,953**	$181,966

(a) These notes bear interest at a fluctuating rate which ranges from fractionally below, to 1% over, the prime lending rate of designated Canadian banks. The rate shown is that in effect at October 31, 1980.

The aggregate amount of payments required in each of the next five years to meet sinking fund and retirement provisions of the notes and debentures are:

October 31, 1981	$ 32,750
October 31, 1982	29,900
October 31, 1983	118,900
October 31, 1984	21,900
October 31, 1985	30,900

Statistical Data

(consolidated basis) Dollars in millions

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
SALES BY AREA OF FINAL SALE										
Canadian Operations										
Canada	**$ 694.4**	833.1	549.7	474.3	460.3	425.2	399.4	338.3	266.7	202.2
United States	**331.6**	367.3	284.4	268.0	163.4	190.0	145.2	125.2	93.0	74.2
Europe and Africa	**1.2**	8.0	2.9	3.0	1.3	5.5	1.1	1.6	1.9	.6
Latin America	**1.0**	.1	1.2	1.1	.9	1.6	1.3	.7	.9	.3
Pacific Area	**1.8**	2.4	2.4	3.3	1.0	5.9	1.0	1.0	1.2	1.7
	1,030.0	1,210.9	840.6	749.7	626.9	628.2	548.0	466.8	363.7	279.0
Seddon Diesel Vehicles Limited	**178.2**	218.6	168.8	125.5	85.2	84.5	—	—	—	—
Total	**$1,208.2**	1,429.5	1,009.4	875.2	712.1	712.7	548.0	466.8	363.7	279.0
NET INCOME										
Amount	**$ 20.5**	74.0	35.2	24.5	20.1	22.6	23.2	21.4	16.6	7.9
Return on Sales	**1.70%**	5.17	3.48	2.80	2.82	3.17	4.23	4.58	4.56	2.83
Return on Shareholder's equity at beginning of the year	**7.81%**	39.16	21.81	16.91	14.72	17.59	19.83	20.30	17.06	8.58
DEPRECIATION AND AMORTIZATION	**$ 8.4**	7.4	6.9	6.3	6.2	5.6	4.9	4.8	4.0	3.4
TAXES — FEDERAL, PROVINCIAL AND LOCAL	**$ 2.9**	29.1	31.5	31.3	24.8	28.5	42.0	39.5	31.8	21.7
CAPITAL EXPENDITURES	**$ 21.2**	9.6	10.2	12.2	10.8	10.8	20.0	8.5	6.1	3.1
SHAREHOLDER'S EQUITY AT END OF THE YEAR										
Capital stock	**$ 15.0**	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Income retained	**268.3**	247.8	173.8	146.4	129.9	121.5	113.5	102.0	90.4	82.3
Total Shareholder's equity	**$ 283.3**	262.8	188.8	161.4	144.9	136.5	128.5	117.0	105.4	97.3
REPRESENTED BY										
Current assets	**$ 322.5**	374.1	244.4	194.6	171.9	191.6	180.4	125.9	103.8	88.9
Less: Current liabilities	**186.1**	245.3	175.8	114.3	96.8	108.1	117.9	66.5	49.6	37.0
Working capital	**136.4**	128.8	68.6	80.3	75.1	83.5	62.5	59.4	54.2	51.9
Property	**69.2**	57.5	56.9	55.0	51.9	50.2	46.5	32.7	29.2	27.1
Investment in Non-Consolidated Finance Subsidiary	**85.0**	62.3	53.6	42.1	36.8	29.1	24.8	21.5	18.4	16.4
Other assets	**12.2**	22.7	12.4	6.4	11.7	10.4	15.6	4.4	4.4	4.4
Total	**302.8**	271.3	191.5	183.8	175.5	173.2	149.4	118.0	106.2	99.8
Less:										
Long-term debt	**15.4**	—	—	18.0	25.9	32.1	20.7	.1	.3	2.0
Deferred income taxes	**4.1**	8.5	2.7	4.4	4.7	4.6	.2	.9	.5	.5
Total	**19.5**	8.5	2.7	22.4	30.6	36.7	20.9	1.0	.8	2.5
Total net assets	**$ 283.3**	262.8	188.8	161.4	144.9	136.5	128.5	117.0	105.4	97.3
NUMBER OF EMPLOYEES AVERAGE (CANADA)	**5,929**	6,381	6,347	6,867	6,556	7,120	7,144	6,510	5,667	4,812

Prior year's figures have been restated in accordance with Note 9 to the Consolidated Financial Statements.